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DECL EXCISE PET 14 LIBYA

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DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY CJ DATE 8/7/81
PORTIONS DENIED AS INDICATED

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ACTION AF-05

INFO OCT-01 SS-20 EUR-12 NSC-10 NSCE-00 INR-06 CIAE-00

RSR-01 RSC-01 E-02 INT-01 NEA-08 L-02 PRS-01 /070 W
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R 270759Z FEB 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC 5942
INFO AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY BENGHAZI
AMCONSUL DHAHRAN
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY TEHRAN

C O N F I D E N T I A L TRIPOLI 0375

LIMDIS

SUBJ: POSTED PRICE NEGOTIATIONS

REF: TRIPOLI 0286

1. SUMMARY. AS SECOND ROUND OF NEGOTIATIONS OPENS, LIBYAN TACTICS SEEM TO AIR AT CAJOLING COMPANIES INTO PRESENTING PROPOSALS, AND THEN TO BARGAIN FOR BEST PACKAGE SETTLEMENT--AIMING AT POSTED PRICE INCREASE OF ABOUT 20 CENTS OR REVENUE INCREASE OF ABOUT 11 CENTS PER BARREL. [redacted] B1
IF COMPANIES MAINTAIN SOLID FRONT AND SUCCESSFULLY RESIST EFFORT TO WHIPSAW THEM INTO SETTLEMENT, MINISTRY IS SAID TO BE PREPARING TO THREATEN UNILATERAL INCREASE IN POSTED PRICE. WHILE BRINGMANSHIP IS DANGEROUS TACTIC, IT IS NOT UNUSUAL, AND WE REMAIN CONVINCED NEITHER SIDE WILL PUSH OTHER OVER EDGE--LARG BECAUSE OF DEPENDENCE ON OIL REVENUE, AND COMPANIES BECAUSE SETTLEMENT COSTING UP TO 11 CENTS WOULD STILL LEAVE RELATIVELY FAVORABLE PROFIT MARGINS. HOWEVER, OUTLOOK FOR CONTINUED RAPID GROWTH OF LIBYAN OIL INDUSTRY APPEARS DIM, AND 1970 IS LIKELY TO SEE LIBYAN PRODUCTION PEAK NOT TO BE SURPASSED FOR SOME

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YEARS.

2. ESSO MET WITH MINISTRY PETROLEUM AND MINERALS POSTED PRICE COMMITTEE FEB 23 AND 24. SECOND SESSION CLIMAXED BY MINPET MABRUUK JOINING MINISTRY TEAM, FOR FIRST TIME, FOR OFF-THE-RECORD EXCHANGE. ESSO LIBYA PRESIDENT WYNNE AND ESSO NEGOTIATORS LEFT IMMEDIATELY THEREAFTER FOR CONSULTATIONS IN NEW YORK. FOLLOWING ESSO SESSIONS, MINISTRY INVITED PRODUCING COMPANIES TO GENERAL MEETING MARCH 2, AT WHICH THEY ARE REQUESTED TO PRESENT QUOTE DEFINITE PRICE PROPOSAL, PREFERABLE IN WRITING. UNQUOTE

3. INFORMATION SO FAR AVAILABLE TO US FROM INDUSTRY AND MINISTRY SOURCES SUGGESTS:
A. MINISTRY IS RETREATING FROM ORIGINAL ASKING PRICE OF 44 CENTS PER BARREL INCREASE IN BREGA POSTING TO FIRM FALLBACK POSITION OF 19 CENTS (TRIPOLI 286, PARA 6), BASED ON 10 CENT PER BARREL FREIGHT ADVANTAGE AND SULFUR ALLOWANCE OF 9 CENTS--CALCULATED AT 6 CENT INCREMENT FOR EACH ONE PER CENT BY WEIGHT DECREASE IN SULFUR CONTENT COMPARED WITH ARABIAN LIGHT CRUDE.
B. MINISTRY IS PRESSING ESSO HARD FOR PRICE INCREASE PROPOSAL BECAUSE OF TRADITIONAL ESSO LEADERSHIP IN LIBYA, BEGINNING WITH ESTABLISHMENT OF ORIGINAL POSTING TO WHICH ENTIRE PRICE STRUCTURE KEYED. CONCESSIONS FROM ESSO THEN COULD BE USED TO WRING COMPLEMENTARY OR ALTERNATIVE CONCESSIONS FROM OTHER MAJOR PRODUCERS.
C. MINISTRY SEEMS TO HOPE TO GAIN PROPOSALS AT MARCH 2 MEETING FOR ASSEMBLY INTO PACKAGE SETTLEMENT WHICH COMPANIES COULD BE WHIPSAWED INTO ACCEPTING BEFORE END MARCH.
D. IF MINISTRY IS FRUSTRATED IN THESE TACTICS BY FIRM AND UNIFIED COMPANY STAND, IT IS SAID BY COMPANIES TO BE PREPARING TO THREATEN UNILATERAL INCREASE IN POSTINGS.
E. WHILE PERHAPS PREPARING TO YIELD SOME ADDITIONAL REVENUE, ESSO IS ESPECIALLY RESISTANT TO ADJUSTMENT IN POSTINGS (AS ARE OTHER MAJORS TO LESSER DEGREE) BECAUSE OF CONCERN ADJUSTMENT IN LIBYA MAY SPARK SIMILAR DEMANDS ELSEWHERE AND BECAUSE IT HAS BOTH SALES AND CRUDE PURCHASE AGREEMENTS WHICH ARE TIED TO POSTED PRICE BUT ARE NOT READILY ADJUSTABLE. (FOR DESCRIPTION OF CRUDE BUY-BACK AGREEMENT IN ESSO SIRTE, SEE PETROLEUM INTELLIGENCE WEEKLY OF FEB23.)

4. COMMENT. BRINKMANSHIP IS COMMON TACTIC IN OIL NEGOTIATIONS--DESPITE RISKS FROM MISCALCULATION, E.G., IPC IN IRAQ--AND WE DO NOT RPT NOT BELIEVE EITHER PARTY IS PREPARED TO KILL GOLDEN GOOSE. OUR ESTIMATES SUGGEST LOWEST COST OPERATORS IN LIBYA, AFTER POSTED

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PRICE INCREASE OF 20 CENTS, STILL WOULD REALIZE 9 CENTS PER BARREL MORE FROM INTEGRATED OPERATIONS PROCESSING STRAIGHT-RUN 39 DEGREE API LIBYAN CRUDE THAN WOULD INTEGRATED OPERATOR LIFTING ARABIAN LIGHT CRUDE FROM RAS TANURA. HIGHER COST AND NON-INTEGRATED PRODUCERS PROBABLY WOULD BREAK ABOUT EVEN ON ABOVE BASIS, I.E., THEIR LIBYAN OPERATIONS THEN WOULD BE NO MORE PROFITABLE THAN COMPARABLE PERSIAN GULF SITUATION. FOR ITS PART, LARG'S SPOKESMEN HAVE ACKNOWLEDGED LIBYA'S DEPENDENCE UPON OIL REVENUE. LIBYAN OIL STRATEGISTS EVINCE WILLINGNESS TO ACCEPT SLOWDOWN IN EXPLORATION AND PRODUCTION GROWTH, THAT HAS BEGUN AND WOULD CONTINUE IF POSTED PRICE RAISED SIGNIFICANTLY, IN FAVOR OF HIGHER PER BARREL REVENUE. BUT INDICATIONS ARE LARG WOULD SHRINK FROM TAKING STEPS WHICH WOULD REDUCE PRESENT RATE OF PRODUCTION. LIBYAN TASK OF RECONCILING DEMAND FOR MORE REVENUE WITH CONTINUED FLOW OF OIL AT HIGH

RATE IS MADE EASIER BY COMPANIES' INTEREST IN MAXIMIZING EFFICIENCY OF THEIR INVESTMENT BY MAINTAINING PEAK OFFTAKE WITHIN LIMITS OF PRESENT FACILITIES. AVERAGE PRODUCTION RATE OF 3.6 MILLION B/D FOR 1970 (16 PER CENT ABOVE 1969) IS FORESEEABLE WITHOUT ADDITIONAL INVESTMENT IN DISCOVERY AND EXPLORATION OF NEW RESERVES. THUS, IF OUR ESTIMATE OF RELATIVE PROFITABILITY OF LIBYAN INDUSTRY IS REASONABLY ACCURATE, LIBYA CAN EXPECT TO INCREASE POSTED PRICE UP TO 20 CENTS PER BARREL WITHOUT SERIOUS SHORT-RUN IMPACT ON PRODUCTION.

5. PRICE INCREASE OF 20 CENTS WOULD MEAN ADDITIONAL INCOME TO LARG OF ABOUT 11 CENTS PER BARREL, OR INCREMENT OF ABOUT $150 MILLION FOR 1970. POSSIBILITY OF BACK-DATING PRICE INCREASE AS FAR AS JAN 1966 (EFFECTIVE DATE OF CONCESSION AMENDMENTS FOR CPEC SETTLEMENT), AS SUGGESTED BY LIBYAN NEGOTIATORS, WOULD ADD BACK-PAYMENT OF UP TO $360 MILLION. THESE ESTIMATES INDICATE MAGNITUDE OF AMOUNTS AT STAKE. SHOULD SETTLEMENT BE REACHED WHICH APPROACHES THIS LIMIT, IT IS LIKELY TO MARK PEAK PRODUCTION OF LIBYA'S OIL INDUSTRY FOR SOME YEARS TO COME. NEVERTHELESS, SUCH SUMS MUST HAVE POWERFUL APPEAL TO REGIME ANXIOUS FOR INTERNATIONAL RECOGNITION AND GREATER REGIONAL INFLUENCE. METTLE OF BOTH SIDES IN THIS DRAMA PROMISES TO BE RIGOROUSLY TESTED. GP-4.
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